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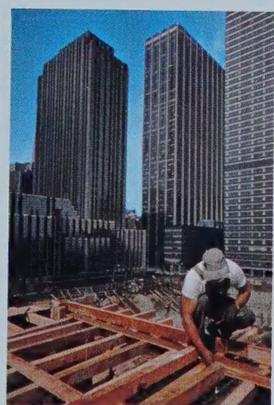
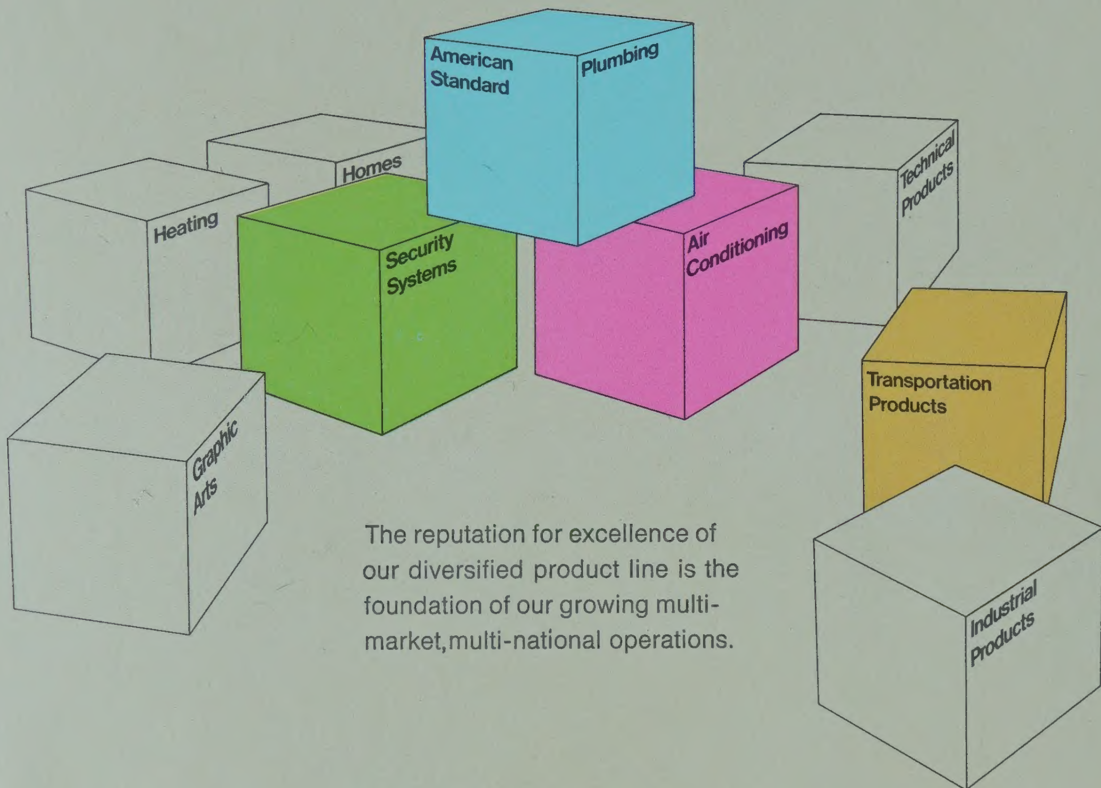
annual report to shareholders

1968

American-Standard



The reputation for excellence of our diversified product line is the foundation of our growing multi-market, multi-national operations.

FINANCIAL HIGHLIGHTS

	1968	1967 As restated	1967 As previously reported
Sales	$1,075,235,000	$991,907,000	$599,807,000
Income before extraordinary items	29,282,000	24,831,000	12,104,000
Per common share	1.77	1.31	1.18
Net income	29,870,000	26,691,000	13,350,000
Per common share	1.83	1.48	1.30
Dividends per common share	1.00	1.00	1.00
Depreciation	36,403,000	36,005,000	21,245,000
Expenditures for facilities	46,441,000	59,185,000	26,236,000
Working capital	309,563,000	349,112,000	179,511,000
Long term debt	225,374,000	215,173,000	122,852,000
Common stockholders' equity	268,545,000	264,720,000	261,468,000
Per common share	25.21	25.05	25.90
Average common shares outstanding during year	10,559,720	10,504,319	10,034,062
Number of common stockholders	47,780	53,739	53,739
Number of employees	63,000	60,400	39,000

CONTENTS

TO OUR SHAREHOLDERS:

American-Standard moved forward on several fronts in 1968 as we continued our development as a balanced multi-product, multi-national enterprise. We were guided in our actions by these three primary goals:

— to increase consistently earnings per share

— to create the atmosphere within the company that allows employees to become better individuals

— to fulfill our responsibility toward government, the communities in which we work, customers, shareholders, suppliers and employees.

Income before extraordinary items per common share in 1968 rose to $1.77 from $1.31 a year ago, an increase of 35 per cent. Sales moved over the billion dollar mark for the first time—reaching $1,075,000,000, an increase of 8 per cent over 1967 sales of $992,000,000. The 1967 figures have been restated to include operations of Westinghouse Air Brake Company, merged into the company in June of 1968. Our 1967 earnings, excluding the merger, were $1.18 per share on sales of $600,000,000. We are reporting 1968 results in comparison with both "before merger" and "after merger" figures so that you can see both the internal and external growth during the year. Each type of growth is part of our continuing strategy.

Our progress resulted in part from our merger with WABCO; part resulted from the first full year's participation by The Mosler Safe Company; and part came from internal improvement.

Actions taken to improve performance included:

— Continuation of an aggressive, coordinated research and product development program. In 1968 we invested $26,000,000 in research and development.

— Development of completely new concepts of bathroom fixtures that will add value and style to the home, provide more convenience, permit easier installation and provide us with the product distinction that will bring us a greater share of the dollar spent on bathrooms.

— Entry into the commercial air conditioning field, opening a large and growing market to us that we had not previously served.

— Launching of a new mechanical document and parcel delivery system that opens new institutional and commercial markets to us.

— Development of a new line of track circuitry for railroads to enable us to provide for the increasing need for faster and more flexible control equipment.

— Marketing of a new line of motor graders, expanding our participation in the earthmoving equipment market.

— Continuation of a forward-looking capital improvement program, with more than $46,000,000 being expended in 1968.

— Construction of a new air conditioning equipment plant.

— Building of two new plastic plumbing fixture plants in the United States.

— Addition of new vitreous china and plastic plumbing products plants in England.

— Increasing the production capacity for electronic security systems, to meet the burgeoning demand.

— Expanding our production capacity in the commercial and specialized printing fields.

— Entry into the plumbing, heating and air conditioning business in Spain with a minority interest in the country's leading company.

— Closing of three outmoded plants.

— Sale or discontinuance of a number of products and product lines not meeting profitability qualifications.

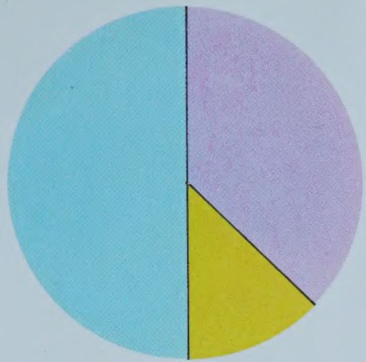
We now operate in three basic business areas:

— Building Products, for use in all types of structures.

— Industrial Products for transportation, general industry and construction.

— Security, Technical Products and Graphic Arts for banks, commercial enterprises and government.

These basic business areas provide sound building blocks for the company. Our industrial products give us a strong



manufacturing base; our building products provide a good marketing base with a tie to the growing social needs throughout the world; and our security and technical products give us expertise in utilizing new technical advances. At the same time our financial strength is improved. Building products represent 50 per cent of our business, industrial products 37% and security and technical products 13%. Each group is affected by a somewhat different business spending cycle, and together they created a cash flow of $75,000,000. We believe our company should be in not more than three to five basic business areas, each of which can grow and contribute toward making us a better company. About 33 per cent of our business was produced or sold outside the United States, which we feel is sound and provides good growth opportunity.

Because of the increasing size and diversity of our company, we considered it wise to adopt a new organization style during the year. This organization is designed to enable us to meet the problems and capitalize on the opportunities in each of our areas of business in a prompt and effective manner. We have divided our operations into four groups—Plumbing and Heating Group, Industrial Products Group, Merchandising Group and Security, Technical Products and Graphic Arts Group. Each group is headed by an executive vice president, and is a self-contained business organization with full worldwide operating authority, but subject to centralized control in capital expenditures, standard reporting and accounting and personnel development. Staff services have been placed in one of four staff divisions, to create a small but strong team of experts to coordinate functions and assist in problem solving at the operational and corporate level. This organization structure underlines our basic philosophy that success in today's times requires a people-oriented and action-oriented operation, with flexibility, with decision-making authority at the lowest possible level, and with recognized opportunity for more and more people to participate meaningfully in the company's activities.

We accept our responsibility to our various publics. Two of the urgent needs of the communities in which we operate are improved housing and better job training for the underprivileged. We have experience and skill in both of these fields, and are active in them—in some cases acting independently, in some cases with partners, and in other cases in support of local civic efforts. In a joint venture we are building urban housing in underprivileged areas. We believe we can demonstrate that private interests, utilizing new methods, can build good housing quickly and economically. We plan to construct other buildings in similar areas. One subsidiary of American-Standard, the Training Corporation of America, an educational organization, specializes in the development, management, operation and evaluation of training programs for the unemployed for both government and industry. Also, American-Standard in its own plants conducts a variety of programs to recruit, train and employ underprivileged persons.

Looking to the future, we feel 1969 will be a better year for us than 1968. Although the tight money situation makes the housing market unusually volatile, we expect the 1969 housing levels will at least equal 1968, and we look for a small increase in our transportation and industrial markets. Foreign markets appear to be improving and we believe that barring political upheavals they will continue to do so. At the same time we face the expiration of labor contracts at most of our major operations, the administration's policy of slowing the U.S. economy, and the reality of considerable unrest in many countries, and several unprofitable operations. On balance, we feel that with the market outlook and with our emphasis on internal improvements, we can meet these various downward risks and continue to improve results during 1969.

The association with the fine group of men and women who make up American-Standard is both stimulating and enjoyable, and I want to recognize publicly the great effort all of them are making to build a better American-Standard.

I also want to express my gratitude to Joseph A. Grazier who retired as Chairman and as an active employee during the year, but who continues to serve as a director and as chairman of the executive and finance committee. He served American-Standard for more than 30 years, and contributed greatly to the company.

By order of the Board of Directors.

W D Eberle

W. D. EBERLE, President

February 24, 1969

BUILDING PRODUCTS

American-Standard sold $540,000,000 of building products in 1968, an increase of 9 per cent over 1967. Although the dollar volume of sales rose, the building products' portion of total company sales changed from 79 per cent in 1967 to 50 per cent in 1968 as a result of the merger with Westinghouse Air Brake Company.

Our operations in the building products field are carried on by two of our four operating groups—the Plumbing and Heating Group and the Merchandising Group. Each group operates on a worldwide basis, and 43 per cent of building product sales in 1968 were from foreign operations.

The Plumbing and Heating Group manufactures plumbing fixtures and fittings and hydronic heating equipment in 17 countries. The Merchandising Group is responsible for international export sales, wholesale supply operations in the United States, air conditioning operations throughout the world, and building and real estate development operations.

The market for building products is composed of the erection of new buildings and the rehabilitation and modernization of existing residential, commercial, institutional and industrial structures of all types. The largest segment of the market is new residential construction, including both single-family and multi-family dwellings.

In 1968 the tempo of residential construction increased in the major geographical areas we serve. In the United States housing starts totaled 1,500,000 in 1968, compared to 1,300,000 in 1967. And in western Europe, which accounts for the bulk of our international operations, residential construction generally increased, although activity varied from country to country.

During the year a commercial air conditioning department was established in the United States to produce and market unitary air conditioning equipment in sizes larger than our residential equipment and smaller than that built for large, high rise buildings. A new plant was constructed in Carteret, New Jersey to produce this equipment. Establishment of the department was a step toward increasing our overall participation in the steadily growing market for air conditioning products. Other steps were the expansion of our air conditioning coil plant in Wilmington, North Carolina and completion of plans for the expansion of our residential air conditioning equipment plant in Elyria, Ohio.

In recognition of the need to increase the capacity for plumbing fixture production in Europe, our English com-

COOLING BY COMPUTER—American-Standard makes plate fin coil assemblies (shown on the wall) in thousands of sizes and configurations for all types of air conditioning and refrigeration equipment. A centralized computer operation translates customer specifications into model numbers in seconds, assuring accuracy and speeding delivery.

A DELIGHTFUL BATHING CENTER—the new Spectra 70 bath that provides plastic wall enclosures, a fold-up seat, a wall storage space with a pull-down door that doubles as a table for the tub, plus the new "Shower Tower" with stereo shower heads and handspray.

LIVABILITY PLUS—a feature of the kitchen and all other parts of homes built by our subsidiary, Wm. Lyon Homes. This actual experience in homebuilding helps us develop new products and new services to increase our service to builders everywhere.

A NEW CONCEPT in bathing comfort—the Ultra Bath by American-Standard. It features a bathing pool 30 per cent wider than normal, twin shower heads, a hand-spray, automatic control of water depth and temperature, and a whirlpool bath.

pany added to its capacity for both vitreous china and plastic products. This was accomplished through the acquisition early in 1968 of John Steventon & Sons, a major vitreous china manufacturer, and the later addition of Valor Cisterns Limited, a producer of plastic plumbing fittings and soil pipe. Both of these companies have been integrated with the English company's operations.

As a result of new programs introduced during the last two years significant progress has been made in sales and profits in the United Kingdom, France and Germany, as well as in the overall coordination of the European production and marketing organization.

In the United States plans for a major modernization and enlargement of the vitreous china plant at Tiffin, Ohio were completed and work begun.

In 1968 in the U.S. development work was completed on the first major new product concepts in the plumbing field in many years. The products were introduced to distributors, contractors and builders in the United States early in 1969 and will be marketed in the second quarter of 1969. They are designed to help us increase our bathroom product sales by providing consumers with increased user benefits while reducing the portion of total costs required for installation. Highlighting the new line of products is the Ultra Bath, which has a bathing pool 30 per cent wider than the standard tub and is equipped with devices to pre-set the temperature and depth of bathing water, a whirlpool bath, and a "shower tower", containing stereo shower heads and a built-in handspray.

Other featured products in the line are the Spectra 70 bath, complete with fiberglass wall surrounds, built-in storage cabinet, and "shower tower"; and the Ultra Lavatory, which has a fountain-like water spout that trajects a splashless, laminar flow of water in a controlled area.

This line of products, which gives every indication of receiving wide and enthusiastic reception, stems from many research and development studies made by or supported by the company, including the noted Cornell report on plumbing fixtures.

Our real estate and land development activites increased during the year as we pursued our program of engaging in joint ventures and other activites that increase building activity, enable us to develop better ways of serving the construction market and assisting in product development.

THE 6-STORY APARTMENT HOUSE in New York City being built by American-Standard in a joint venture. Projects of this kind both create needed housing and advance our ability to serve the construction industry.

INDUSTRIAL PRODUCTS

MODERN RAILROADING requires fast and accurate classification of cars and makeup of trains. At this N&W freight classification yard the WABCO control equipment speeds the complex job of getting the right cars in the right place at the right time.

The combination of Westinghouse Air Brake Company and American-Standard industrial product sales increased the percentage of total sales represented by this product group from 9 per cent in 1967 to 37 per cent in 1968. Dollar volume of sales for the group in 1968 was $393,000,000, of which $119,000,000 came from foreign sales.

The Industrial Products Group includes transportation products, consisting of braking, signalling and control equipment for railway and mass transit use, street signalling and auto traffic control, and automotive braking systems; construction and mining products, including earthmoving, material handling, mining, drilling, and pneumatic equipment and components; and general industry products, including aerospace, temperature and pressure control, fluid power equipment, heat exchangers, steam generators, air handling and air pollution control equipment, fluid drives and merchant pig iron.

Sales of industrial products improved in 1968, largely as a result of foreign operations, particularly in Australia, Germany and France. Market conditions indicate that continued improvement can be achieved in 1969.

In the railway and mass transit field, there is need for substantially more equipment, though decisions on public policy and financing matters are delaying order placing in some instances. We continue to maintain our leadership in railway braking, signalling and control with the development of new and improved systems and components.

The heavy construction field served by our construction equipment dipped from a year earlier. The expected increase in activity in 1969, however, plus our acquisition of a line of front-end loaders — which expands our market — should result in increased construction equipment sales.

The world's largest borer, built by us, entered potash mining in 1968 with good results, and our six-wheeled motorized shuttle cars for underground coal hauling continued to gain customer acceptance.

Also, a new line of motor graders—reflecting some of the most advanced designs available today—and a new line of track circuitry—designed to provide greater safety in control of highway grade crossings—were introduced or developed during the year.

Early in 1969 the formation of an Aerospace Department within the Industrial Products Group was announced. The new department, headquartered in the Swissvale, Pennsylvania facilities, is responsible for managing all phases of the miniature electrical relay business manufactured at the Batesburg, S.C. operation. An added responsibility given the new department calls for expansion of the electromechanical component business into other markets.

A decision was made in 1968 to phase out all the Detroit Controls Division's manufacturing facilities. Production and marketing operations of this division's three major product lines form the nucleus of the newly established Controls Department and are being transferred to the company's Swissvale plant.

AIR POLLUTION CONTROL is a continuing concern of American industry, and is accomplished at this cement factory with a battery of American-Standard electrostatic precipitators, specially built for the job.

HIGH SPEED RAIL TRAVEL on the East Coast began regular service with the Penn-Central train cutting travel time between New York and Washington by nearly one-third. The train uses braking systems developed and built by Westinghouse Air Brake.

CLEARING THE WAY for new buildings, roads and construction of all types is a task being done increasingly with WABCO earthmoving and construction equipment — manufactured and sold in Europe, Africa and Australia as well as the U.S.

Norfolk & Western Railway

SECURITY, TECHNICAL PRODUCTS AND GRAPHIC ARTS

The sales of this product group for 1968 amounted to $142,000,000 as compared to $110,000,000 in 1967. Part of this increase is due to the inclusion of Mosler Safe for a full year in 1968 versus eight months in 1967. The group accounted for 13 per cent of total company sales in 1968.

The security products manufactured by Mosler include safes, vault equipment, bank furniture, and newer lines of electronic alarms and photo-surveillance equipment. Another fast growing product area is that of remote bank transaction systems, and record transport systems.

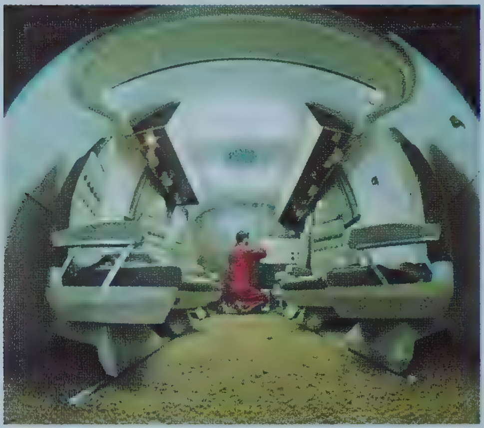
The demand for security equipment, both mechanical and electronic, is growing steadily as a result of the increasing concern over the rising volume of burglaries and holdups and the passage of the Bank Security Act of 1968 which requires improved security for financial institutions. Sales of security products increased substantially in 1968 and are expected to continue to rise in 1969. A plant addition resulting in a 50 per cent increase in capacity for electronic systems was completed late in 1968.

Office systems equipment including filing devices, office furniture, and automated random document retrieval systems round out the line of products marketed by the Mosler organization.

Graphic arts products cover three areas of printed products: bank stationery, commercial printing, and business forms. Growth of sales in all three areas has exceeded industry averages. Approximately $10,000,000 in sales was added in 1968 through several small acquisitions. Because of the substantial growth, plant space was nearly doubled in 1968 and plans call for a large increase again in 1969.

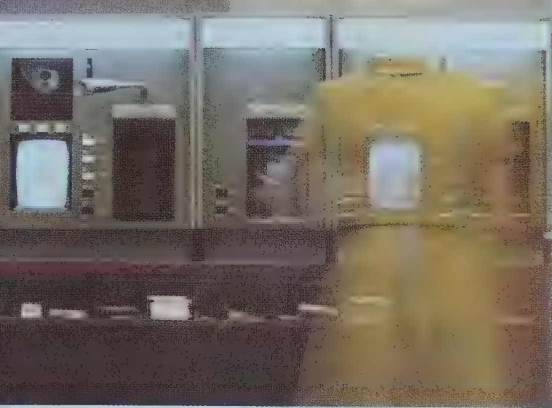
Technical products of the company include government research and defense production at Melpar, Inc.; a line of air navigational equipment and air traffic control systems built and marketed by Wilcox; and miscellaneous other products such as fire extinguishing systems for aircraft, pitot tubes, thermocouples, transducers and gauges all marketed under the American-Standard name.

SPEEDIER SERVICE TO CUSTOMERS is possible when banks use the new Mosler equipment for servicing remote banking stations. It permits one teller to have visual and voice contact, plus pneumatic tube document exchange, with a number of stations while she stays where the records are.

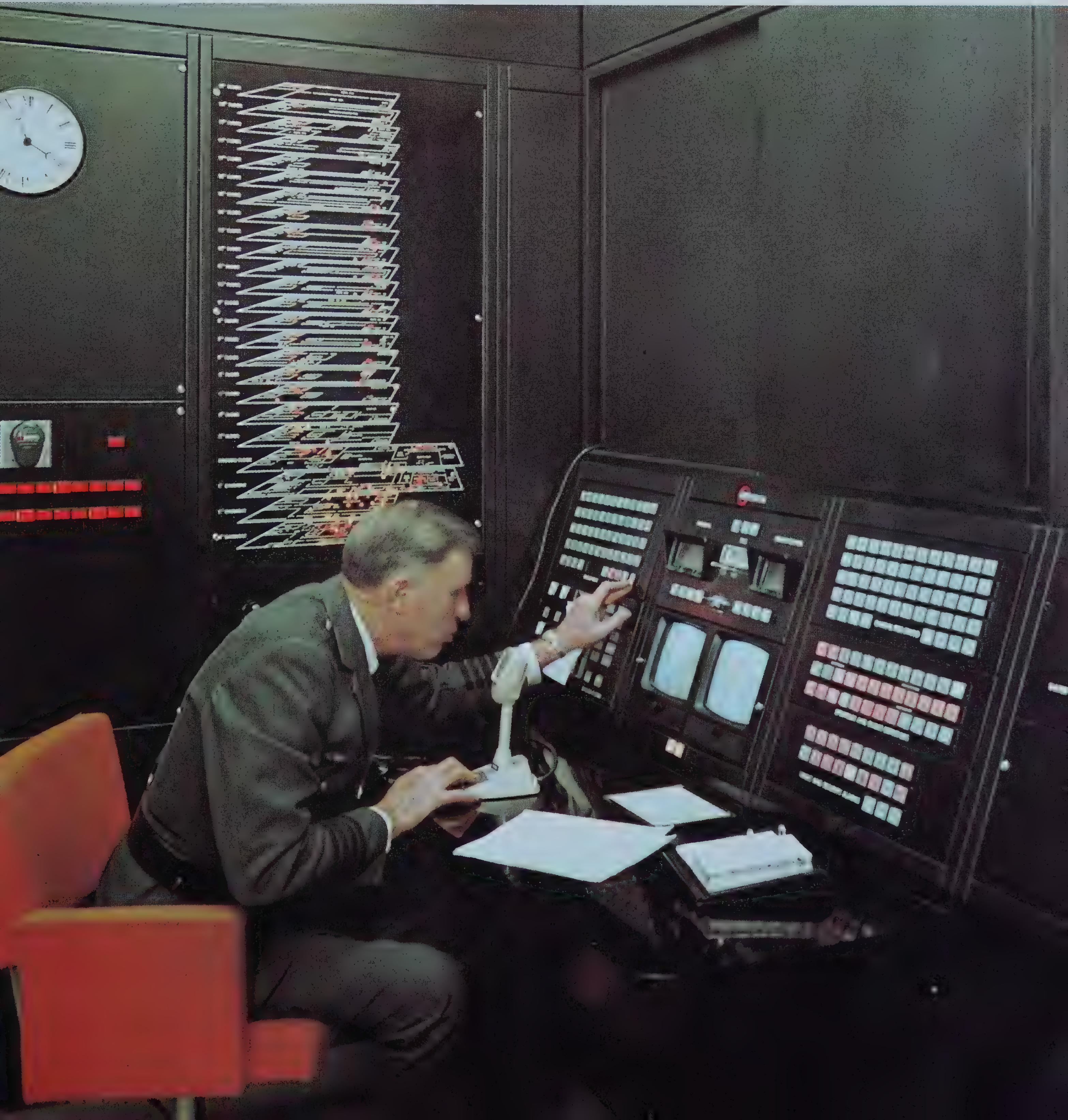


FOR RETURNING MOON EXPLORERS this capsule was built to keep them both isolated and comfortable during post-voyage medical checks. It attaches to the returning space capsule after landing so the astronauts can enter it directly from the capsule with no exposure to the outside.

AN INTEGRATED SECURITY SYSTEM CONTROL that monitors for fire, theft and intrusion is more and more in demand by banks and other commercial enterprises. Here a Mosler control center in The Bank of California in San Francisco permits one person to monitor electronic and visual checks in the entire building.



BEAUTIFUL BUT SAFE are the new Magna vault doors built by Mosler. They provide both physical and electronic protection and are so carefully built and installed they can be closed with the touch of a finger.



MANAGEMENT AND PERSONNEL

Following our merger with Westinghouse Air Brake our board of directors was enlarged to 16 members, with four former WABCO directors—Messrs. Edward J. Hanley, A. King McCord, G. Albert Shoemaker and Leslie B. Worthington—joining the American-Standard board.

The organization of the company into four worldwide operating groups led to the election of three additional executive vice presidents. Joining Messrs. P. M. Augenstein and L. C. Ward in that capacity were J. L. Briggs, former vice president, international operations; Wm. A. Marquard, Jr., who also continues as president of Mosler Safe; and Lawrence E. Walkley, also continuing as president of Westinghouse Air Brake. Other officers elected during the year were Robert W. Andrews, vice president, administrative services; Clarence C. Benedict, vice president and controller; and Richard H. Francis, treasurer. In keeping with our policy of internal promotion of qualified people, all of the officers elected or promoted in 1968 except one, were from inside the company.

The continued growth of our company, coupled with our practice of decentralizing authority and responsibilty as much as possible, results in a continuing need for new managers. To help meet this need we have intensified our training of present employees and our recruiting activity at both the college and graduate school level. In 1968 our acceptances by graduates increased by 25 per cent.

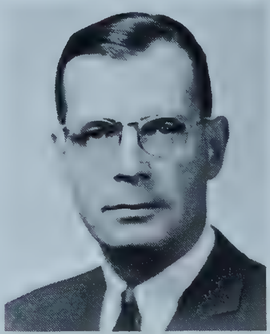
To attract and retain the caliber of people we need we have revised our compensation programs to aim at reward based on performance and the creation of early equity participation by employees. The Employee Stock Purchase Plan has been offered to virtually all employees in the United States and is being extended to employees in other countries wherever legally possible. Of those eligible so far a gratifying 27 per cent have enrolled in the program. An improved pension plan has been developed for salaried employees (hourly employees are covered by union-negotiated pension plans) and a profit sharing plan permitting individual flexibility in retirement planning has been worked out.

We believe our employee relations are good. Labor negotiating responsibility is with local plant management and we worked out 24 contract renewals in 1968 with only one work stoppage. In 1969 there are 60 new contracts to be negotiated, and we are optimistic that equitable settlements will be reached in each case.

P. M. Augenstein

Lawrence E. Walkley

J. L. Briggs



L. C. Ward

Wm. A. Marquard, Jr.

FINANCIAL REVIEW

SALES
Sales in 1968 amounted to $1,075,000,000, an increase of 8% over the restated amount of $992,000,000, in 1967. These sales were distributed as follows:

	1968	1967
Building Products . .	$ 540,000,000	$496,000,000
Industrial Products . .	393,000,000	386,000,000
Security, Technical Products and Graphic Arts . . .	142,000,000	110,000,000
	$1,075,000,000	$992,000,000

Approximately 33% of 1968 sales were derived outside the United States.

EARNINGS
Income before extraordinary items aggregated $29,282,000, representing an increase of 18% from the restated 1967 amount of $24,831,000. On a per share basis this income increased 35% from $1.31 in 1967 to $1.77 in 1968. These gains can be measured against the 8% gain in sales. All three product groups contributed to this performance.

SELLING AND ADMINISTRATIVE EXPENSE
Selling and administrative expense increased from $139,627,000 or 14.1% of sales in 1967 to $156,937,000 or 14.6% of sales in 1968. This increase is related principally to the inclusion of Mosler expenses for the full year 1968. After-sales service is a major consideration in the buying decision of Mosler equipment, therefore a highly technical staff is maintained to provide this service to the customer.

INTEREST
Interest expense increased $5,724,000 from $12,421,000 in 1967 to $18,145,000 in 1968. This increase primarily reflects the full year's expense of the borrowing necessitated by the Mosler purchase, the borrowing related to the purchase of WABCO shares, and the generally higher level of rates applicable to bank borrowing. In 1968 the company arranged a $22,500,000 revolving Eurodollar credit agreement with a group of U. S. banks in order to have available funds for investment outside the United States while complying with the Foreign Direct Investment Regulations of the U. S. Government. $6,000,000 has been borrowed at December 31, 1968.

Domestically, the Company sold its notes in the commercial paper market, tapping for the first time this important source of short term capital.

FINANCE AND REAL ESTATE OPERATIONS
The finance company has extended its services to other operations of American-Standard and new financing approaches are under review in support of our sales effort. Real estate operations expanded rapidly in 1968 and substantially increased their earnings contribution to the company. Our capabilities in this area have been expanded beyond the geographical confines of California through joint ventures in New Jersey, Maryland and Virginia. Furthermore, plans are underway to apply these capabilities to the multi-family market.

TAXES
The investment tax credit included in income amounted to $1,122,000 in 1968 as compared to $804,000 in 1967. The surtax effect on 1968 income is estimated to have reduced earnings by $1,100,000.

WORKING CAPITAL
Working capital declined $39,549,000 as a result of the purchase of the WABCO stock, an increase in investments, and capital expenditures exceeding depreciation. The principal investment involved the purchase of a 20% interest in a plumbing, heating and air conditioning business in Spain.

STOCKHOLDERS
In connection with the merger with Westinghouse Air Brake Company a new class of stock, the $4.75 cumulative convertible preference, series A, was issued. One share of the new stock was exchanged for each two shares of WABCO stock. The new stock is convertible at any time into two and two-thirds shares of American-Standard common.

Total number of stockholders in each class at December 31, 1968 was:

7% preferred	463
$4.75 cumulative convertible preference . .	22,063
Common	47,780
	70,306

CONSOLIDATED STATEMENT OF INCOME

AMERICAN STANDARD INC.

	Year ended December 31		
	1968	1967 As restated	1967 As previously reported
Sales	$1,075,235,000	$991,907,000	$599,807,000
Cost and expense			
Cost of products sold	831,087,000	778,488,000	470,826,000
Selling and administrative	156,937,000	139,627,000	92,071,000
Research and product development	26,222,000	26,140,000	11,525,000
Interest	18,145,000	12,421,000	5,774,000
	1,032,391,000	956,676,000	580,196,000
	42,844,000	35,231,000	19,611,000
Other income	7,738,000	8,262,000	1,993,000
Income before taxes on income	50,582,000	43,493,000	21,604,000
Taxes on income	21,300,000	18,662,000	9,500,000
Income before extraordinary items	29,282,000	24,831,000	12,104,000
Extraordinary items	588,000	1,860,000	1,246,000
Net income	29,870,000	26,691,000	13,350,000
Preferred dividend requirements			
7% preferred stock	233,000	252,000	252,000
$4.75 convertible preference stock	10,344,000	10,858,000	—
Net income applicable to common stock	$ 19,293,000	$ 15,581,000	$ 13,098,000
Per common share			
Income before extraordinary items	$1.77	$1.31	$1.18
Extraordinary items	$ .06	$ .17	$ .12
Net income	$1.83	$1.48	$1.30

Depreciation, based on straight line and accelerated methods, included above amounted to $36,403,000 and $36,005,000 in 1968 and 1967, respectively.

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENTS OF SURPLUS

AMERICAN STANDARD INC.

CAPITAL SURPLUS	Year ended December 31 1968	1967
Balance, beginning of year	$ 57,632,000	$ 55,981,000
Excess of aggregate price of options exercised over par value of stocks issued	1,878,000	1,655,000
Other	121,000	(4,000)
	59,631,000	57,632,000
Less:		
Amount relating to American-Standard's holdings of WABCO common stock cancelled in the merger	768,000	—
Amounts relating to WABCO merger, less dividends of $191,000 received by American-Standard on its holdings of WABCO common stock	2,288,000	—
Purchase of 3,230 shares of 7% preferred stock in excess of par value thereof	55,000	—
	3,111,000	—
Balance, end of year	$ 56,520,000	$ 57,632,000

EARNED SURPLUS	1968	1967
Balance, beginning of year	$278,685,000	$270,411,000
Net income	29,870,000	26,691,000
	308,555,000	297,102,000
Less:		
Amount relating to American-Standard's holdings of WABCO common stock cancelled in the merger	16,699,000	—
Cash dividends		
American-Standard		
7% preferred stock	233,000	252,000
$4.75 convertible preference stock	5,374,000	—
Common stock	10,530,000	10,047,000
Dividends of pooled companies prior to merger	3,976,000	8,118,000
	20,113,000	18,417,000
Balance, end of year	$271,743,000	$278,685,000

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1968 and 1967

AMERICAN STANDARD INC.

ASSETS	1968	1967
Current assets		
Cash	$ 47,571,000	$ 55,374,000
Marketable securities, at cost which approximates market	3,035,000	1,658,000
Accounts receivable	221,148,000	200,714,000
Inventories		
Finished products	133,592,000	135,310,000
Products in process	71,344,000	64,986,000
Raw materials	78,727,000	75,822,000
	283,663,000	276,118,000
Other current assets	7,457,000	5,353,000
Total current assets	562,874,000	539,217,000
Investments		
Associated companies	33,593,000	24,549,000
Other	8,222,000	6,835,000
Facilities, at cost		
Land	17,455,000	17,375,000
Buildings	202,194,000	183,650,000
Machinery and equipment	407,954,000	383,453,000
Improvements in progress	9,021,000	22,212,000
	636,624,000	606,690,000
Less accumulated depreciation and provision for losses on disposal	375,877,000	355,152,000
	260,747,000	251,538,000
Excess of cost over net assets of businesses purchased	72,121,000	62,827,000
Other assets	11,063,000	7,084,000
	$ 948,620,000	$ 892,050,000

The accompanying notes are an integral part of this financial statement.

LIABILITIES AND STOCKHOLDERS' EQUITY	1968	1967
Current liabilities		
Loans payable	$ 76,893,000	$ 44,559,000
Current maturities of long term debt	6,340,000	3,923,000
Accounts payable and accrued liabilities	150,462,000	135,033,000
Taxes on income	19,616,000	6,590,000
Total current liabilities	253,311,000	190,105,000
Long term debt	225,374,000	215,173,000
Reserves		
Foreign operations	14,696,000	13,598,000
Foreign pensions and termination indemnities	10,678,000	9,690,000
Expenses resulting from re-evaluation of certain product lines and facilities	6,964,000	6,954,000
Deferred taxes on income (arising principally from accelerated depreciation)	259,000	2,213,000
Minority interests in subsidiaries	10,982,000	15,812,000
Stockholders' equity		
7% preferred stock	3,272,000	3,595,000
$4.75 convertible preference stock	41,553,000	45,763,000
Common stock	53,268,000	52,830,000
Capital surplus	56,520,000	57,632,000
Earned surplus	271,743,000	278,685,000
	426,356,000	438,505,000
	$ 948,620,000	$ 892,050,000

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

AMERICAN STANDARD INC.

	Year ended December 31, 1968
Source of funds	
Net income	$ 29,870,000
Depreciation	36,403,000
Sale and disposal of facilities	11,146,000
Net borrowings	44,952,000
Proceeds from employee stock options	2,702,000
Increase in accounts payable and taxes on income	28,455,000
Decrease in cash	7,803,000
	$161,331,000
Application of funds	
Expenditures for facilities	$ 46,441,000
Investment in purchased companies	23,036,000
Purchase of WABCO common stock prior to merger	22,063,000
Increase in excess of cost over net assets of businesses purchased	9,294,000
Payment of dividends	20,113,000
Increases in	
Accounts receivable	20,434,000
Inventories	7,545,000
Other assets	7,339,000
Decrease in reserves and non-current liabilities	4,688,000
Purchase of 7% preferred stock	378,000
	$161,331,000

The accompanying notes are an integral part of this financial statement.

1. PRINCIPLES OF CONSOLIDATION
All subsidiaries are consolidated except finance and real estate subsidiaries, which are stated at equity in their net assets, and subsidiaries in the development stage or subject to severe exchange restrictions, which are stated at cost or less. The balance of investments in associated and other companies is stated at cost.

During 1968 the Company acquired the net assets of Westinghouse Air Brake Company (WABCO) and other businesses which were accounted for as poolings of interest. The 1967 financial statements have been restated to include these businesses. (The statement of income as previously reported for 1967 is presented as supplemental information.) At June 7, 1968, the date the WABCO merger was consummated, American-Standard owned 459,622 shares of WABCO common stock (cancelled in the merger) which American-Standard purchased subsequent to December 31, 1967 for $22,063,000.

Operations of purchased companies are included in the consolidated financial statements from the dates of acquisition. The excess of cost over net assets of businesses purchased relates principally to Mosler and is not being amortized since there has been no diminution in value.

2. FINANCE AND REAL ESTATE SUBSIDIARIES
Condensed 1968 financial data for the finance and real estate subsidiaries follows:

	Finance Operations	Real Estate Operations
Assets	$37,435,000	$45,506,000
Liabilities:		
Notes payable	28,526,000	31,364,000
Other	265,000	4,906,000
	28,791,000	36,270,000
American-Standard's equity	$ 8,644,000	$ 9,236,000
Net income	$ 316,000	$ 1,279,000

3. INVENTORIES
Inventories, aggregating $44,838,000 at December 31, 1968, are stated on a last-in, first-out basis, which is less than current replacement cost. All other inventories are stated at the lower of cost or market, cost being determined generally on a first-in, first-out basis.

4. LONG TERM DEBT
Long term debt at Dec. 31, 1968 (excluding $6,340,000 included in "Current Liabilities") is as follows:

Notes payable to banks, prime rate, due January 2, 1971 (a)	$ 70,000,000
6½% promissory notes (a)	40,000,000
5¾% promissory notes due in installments to 1992	25,000,000
Notes payable to domestic banks, prime rate (b)	22,000,000
3⅞% sinking fund debentures due 1978 (less $401,000 in Treasury)	18,999,000
4% sinking fund notes, due 1981 (less $48,000 in Treasury)	4,702,000
Other domestic loans, interest 4% to 8¼%	16,662,000
Foreign loans, due in various amounts to 2002, interest ranging from 3% to 9%	28,011,000
	$225,374,000

(a) American-Standard has agreed to borrow $110,000,000 from certain institutional lenders by issuing 6½% promissory notes repayable in annual installments of $6,600,000 beginning September 1, 1976 with balance due September 1, 1990. At December 31, 1968 $40,000,000 of this amount has been borrowed. The remaining $70,000,000 will be used to liquidate the notes payable to banks by January 2, 1971.

(b) The $22,000,000 notes payable to domestic banks are payable under a revolving credit agreement which expires April 30, 1970. The agreement provides that at its expiration date the banks will provide a term loan, equal to the notes then outstanding, repayable in ten equal semi-annual installments commencing six months after the date of the term loan. Interest will be at the prime rate plus ¼ of 1%.

(c) The aggregate amounts of long term debt maturing in each of the four years after 1969 are: 1970—$16,879,000; 1971—$14,671,000; 1972—$16,407,000, and 1973—$11,495,000.

(d) Among the working capital and dividend restrictions contained in the various loan agreements, the most restrictive requires the Company to maintain consolidated working capital of $150,000,000 and restricts the payment of cash dividends. Consolidated earned surplus not so restricted at December 31, 1968 amounted to approximately $21,800,000.

5. RESERVE FOR FOREIGN OPERATIONS
The substitution by a subsidiary in 1968 of debt for its preference stock resulted in an unrealized exchange gain of $1,961,000 which was credited to the Reserve for Foreign Operations. Unrealized exchange losses of $863,000 were charged to this reserve.

6. CAPITAL STOCK

A summary of capital stock follows:

	December 31 1968	1967
Preferred stock—7% cumulative; $100 par value, redemption price and preference on liquidation $175 per share; $5,726,000 in the aggregate; authorized and outstanding 1968, 32,719 shares; 1967, 35,949 shares . . .	$ 3,272,000	$ 3,595,000
Preference stock without par value; authorized 3,000,000 shares: $4.75 cumulative preference stock series A—stated value $20 per share, convertible into 2⅔ shares of common stock; preference on involuntary liquidation—$73.20 per share; $152,085,000 in the aggregate; outstanding 1968, 2,077,667 shares; 1967, 2,288,168 shares	41,553,000	45,763,000
Common stock—$5 par value; authorized 20,000,000 shares; issued 11,709,934 shares; in treasury 1968, 1,056,429 shares; 1967, 1,143,885 shares; outstanding 1968, 10,653,505 shares; 1967, 10,566,049 shares	53,268,000	52,830,000

All options granted (including substitute options) are exercisable on a cumulative basis over the life of the option. Options granted under the American-Standard stock option plan after December 31, 1963 are exercisable only if previously granted and outstanding options, if any, held by the optionee are exercisable at prices not higher than the price of the new option.

At December 31, 1968 options for 362,631 common shares were outstanding (granted under the 1959 plan or in substitution for Mosler options) at prices ranging from $13 to $43 per share. In 1968, under the 1959 plan, options for 143,750 common shares were granted, and options for 18,170 shares were cancelled. Options for 87,255 shares were exercised at prices ranging from $8 to $29 per share. At December 31, 1968, 81,410 shares were purchasable and 1,825 shares were reserved for future options.

Option prices may not be less than the fair market value on the date the option is granted and options may not be granted after September 9, 1969 under the plan as now in effect.

In December 1968, subject to stockholder approval, the Board of Directors extended the 1959 plan and allocated 500,000 more common shares for options. At December 31, 1968 options for 130,500 shares, in addition to the number shown above under the present plan, had been granted contingent upon stockholder approval of the extension and additional allocation of shares. No installments are now purchasable under any such contingent options.

Also at December 31, 1968 WABCO substitute options for 14,474 shares of $4.75 convertible preference stock were outstanding at prices ranging from $54 to $74 per share. These options were granted in connection with the WABCO merger. Options for 5,600 shares were exercised at prices ranging from $49 to $73 per share.

The excess of the aggregate price for options exercised over the par value of the shares delivered, amounting to $1,878,000, has been credited to capital surplus.

Under the Employee Stock Purchase Plan, the Company may offer subscription rights to eligible employees to purchase up to 500,000 shares of the Company's common stock. The first and second offerings under the Plan were made on December 7, 1967 and August 15, 1968 at $26 and $42 per share, respectively, the fair market value of the stock on the respective dates. At December 31, 1968 subscriptions for shares under the first and second offerings aggregated 121,788 shares and 54,039 shares, respectively, and 201 shares were delivered to former employees who had retired. An additional 250,000 shares have been authorized, subject to approval by stockholders at the April 1969 meeting.

7. OTHER INCOME

Other income is as follows:

	1968	1967
Dividends	$2,609,000	$2,572,000
Interest	2,128,000	2,351,000
Finance operations	316,000	272,000
Real estate operations	1,279,000	621,000
Royalties	710,000	1,029,000
Other	696,000	1,417,000
	$7,738,000	$8,262,000

8. PENSION PLANS

Pension expense including amortization of prior years' service cost over periods not exceeding thirty-eight years, amounted to $7,137,000 in 1968 and $6,305,000 in 1967.

The estimated unfunded past service cost at December 31, 1968 was $11,100,000.

9. EXTRAORDINARY ITEMS

Extraordinary dividends (after income taxes) of $2,763,000 were received in 1968 from Bendix-Westinghouse Air Brake Company and have been included in the financial statements as extraordinary income. A provision of $2,175,000 (after income tax) for loss on discontinuance of certain foreign operations has been included in 1968 as an extraordinary charge.

10. EARNINGS PER SHARE

Earnings per share are based on the average number of shares outstanding during each year. On the basis of full conversion into common stock of the $4.75 convertible preference stock and all outstanding options, employee

stock purchase subscriptions and shares to be issued in 1969 (see note 13) 1968 net income per common share would be $1.80.

11. LITIGATION

In 1966 the Company, an employee, and a former employee were indicted on charges of Sherman Act violations, including price fixing, and at the same time the Department of Justice filed a companion civil suit against the Company. Since then numerous private civil actions, some purporting to be class actions, have been brought with respect to the same matters, seeking to recover treble damages in unspecified amounts. The Company and the individuals have pleaded not guilty to the indictment and the Company denies the charges in all civil actions. At the date of this report, a jury trial (to which two other corporations and one other individual are parties) arising out of the indictment is under way in Federal Court and is expected to be concluded shortly.

Five other corporations, a trade association, and five individuals covered in the same indictment pleaded *nolo contendere* and were sentenced.

Management cannot predict the outcome of the various suits or when the civil actions will come to trial. As of this date management is of the opinion that the effect, if any, on the financial position of the Company of the above litigation should not be materially adverse. No provision has been made in the financial statements for possible liabilities.

12. CONTINGENCIES

At December 31, 1968 the Company was contingently liable in the approximate amount of $12,000,000 in connection with guaranties of obligations of associated companies, accounts receivable discounted and equipment repurchase agreements.

13. SUBSEQUENT EVENTS

In January 1969 the Company sold its 49% interest in the capital stock of Bendix-Westinghouse Automotive Air Brake Company to The Bendix Corporation (holder of the remaining 51% interest). In 1969, in addition to the normal annual dividend of about $1,800,000, American-Standard will report extraordinary income from its Bendix-Westinghouse holdings (including an extraordinary dividend) of approximately $29,000,000 after applicable income taxes.

In February 1969 the Company agreed to issue 20,000 shares of its common stock in full satisfaction of its contingent obligation to issue 50,000 common shares in connection with a 1968 acquisition.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Shareholders and Board of Directors
American Standard Inc.

We have examined the accompanying consolidated balance sheet of American Standard Inc. and subsidiaries at December 31, 1968, the related consolidated statement of income, the consolidated statements of surplus and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of American Standard Inc. and subsidiaries at December 31, 1968, the consolidated results of their operations and the source and application of their consolidated funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, New York
February 14, 1969

OPERATIONS DIRECTORY

PLUMBING AND HEATING GROUP
J. L. Briggs, Executive Vice President

U. S. Operations

PLUMBING & HEATING DIVISION, New York, N. Y.
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Church Products Dept., Monson, Mass.
John F. Sullivan, Manager

Development and Engineering Dept., Louisville, Ky.
Gilbert McMurtrie, Manager

Enamelware Dept., Louisville, Ky.
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Hydronics Dept., Buffalo, N. Y.
William E. Hoctor, Manager

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Baldwin T. Young, General Manager

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Managua, Nicaragua, C.A.
Manuel I. Lacayo, President

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Residential Air Conditioning Dept., Elyria, Ohio
Wesley L. Wright, General Manager

Wilmington Coil Dept., Wilmington, N. Car.
Sidney A. Shapiro, General Manager

International Air Conditioning Department, New York, N. Y.
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Wesley E. Gatewood, General Manager

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Melbourne, Australia
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CONSTRUCTION AND MINING GROUP, Pittsburgh, Pa.
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Drilling Equipment Div., Enid, Okla.
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Tratores do Brasil S.A., Sao Paulo, Brazil
Alvaro Saenz, Managing Director

WABCO Equipment Canada Limited, Paris, Ont., Canada
L. E. Bechtold, President

L-W Manufacturing (Pty.), Ltd.,
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L-W Manufacturing, S.A., Gembloux, Belgium
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Signal & Communications Div., Swissvale, Pa.
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Dr. Karl Neubeck, Manager

Compagnie des Freins et Signaux Westinghouse, Servan, France
Felix Le Norcy, President

Westinghouse Bremsen-und Apparatebau G.m.b.H.,
Hannover-Linden, Germany
Rudi Lind and Klaus von Kardoff, General Managers

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Mario Longo, General Manager

S. A. des Freins et Signaux Westinghouse, Berne-Bumpziz, Switzerland
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Industrial Products Dept., Dearborn, Mich.
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Albert D. Bright, General Manager

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J. A. Anderson, Vice President and General Manager

Mosler Safe Co. de Puerto Rico, Inc., San Juan, Puerto Rico
Octavio J. Valdes, Vice President and Managing Director

Mosler de Colombia, S.A., Bogota, Colombia
George N. Kroes, Manager

FIVE YEAR SUMMARY*

AMERICAN STANDARD INC.

	1968	1967	1966	1965	1964
Sales					
U. S.	$723,535,000	$690,774,000	$672,715,000	$627,313,000	$598,697,000
Foreign	351,700,000	301,133,000	289,943,000	209,719,000	211,366,000
Total	1,075,235,000	991,907,000	962,658,000	837,032,000	810,063,000
Income before extraordinary items					
U. S.	16,059,000	16,698,000	19,370,000	21,907,000	19,799,000
Foreign	13,223,000	8,133,000	8,096,000	11,199,000	13,433,000
Total	29,282,000	24,831,000	27,466,000	33,106,000	33,232,000
Per common share	1.77	1.31	1.56	2.10	2.15
Net income	29,870,000	26,691,000	9,871,000	32,731,000	33,746,000
Per common share**	1.83	1.48	(.12)	2.06	2.20
Dividends paid on common stock	10,530,000	10,047,000	10,000,000	10,019,000	10,018,000
Per common share	1.00	1.00	1.00	1.00	1.00
Common stockholders' equity	268,545,000	264,720,000	254,920,000	263,139,000	242,185,000
Per common share	25.21	25.05	24.34	25.15	23.06
Working capital	309,563,000	349,112,000	305,243,000	296,395,000	280,521,000
Facilities, net	260,747,000	251,538,000	226,772,000	210,722,000	195,595,000
Expenditures for facilities	46,441,000	59,185,000	47,344,000	40,792,000	37,209,000
Provision for depreciation	36,403,000	36,005,000	32,710,000	26,488,000	23,643,000
Employment costs	404,786,000	373,998,000	358,584,000	316,347,000	304,673,000
Number of employees	63,000	60,400	59,200	53,200	50,600

*Restated to include retroactively the results of companies acquired through poolings of interest transactions. Certain foreign subsidiaries of WABCO are not consolidated prior to 1966 but WABCO's equity in their net income is included in 1965.

**After preferred dividend requirements.

DIRECTORS AND OFFICERS

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HENRY S. WINGATE chairman, The International Nickel Co. of Canada, Ltd.
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MILTON B. HOLLANDER vice president, technology

RICHARD H. FRANCIS treasurer

JOSEPH R. ALLEN assistant controller
FREDERICK W. JAQUA assistant secretary
JOHN F. WARNER assistant treasurer

HENRY H. STEINER tax counsel

EXECUTIVE OFFICES
40 West 40th Street, New York, N.Y. 10018

STOCK TRANSFER OFFICES
Preferred, $4.75 Cumulative Preference Series A, and Common Stocks:
Office of the Corporation
40 West 40th Street, New York, N.Y. 10018

Common Stock:
United States Corporation Company
15 Exchange Place, Jersey City, N. J. 07302

$4.75 Cumulative Preference Series A Stock:
Mellon National Bank & Trust Company
Mellon Square, Pittsburgh, Pa. 15230

REGISTRAR
Preferred, $4.75 Cumulative Preference Series A, and Common Stocks:
First National City Bank, New York, N.Y.

$4.75 Cumulative Preference Series A Stock:
Pittsburgh National Bank, Pittsburgh, Pa.

CERTIFIED PUBLIC ACCOUNTANTS
Arthur Young & Company, New York, N.Y.

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AR53

MEETING NOTES - JULY 9, 1968

AMERICAN STANDARD
CONS. OIL & GAS AND HUGOTON PROD.
BEELINE FASHIONS
ATLANTIC-RICHFIELD

American Standard, Inc.

MN 6/12/68 - Price 38 - 1968 Est. $1.80 - P/E 21X - Div. $1.00 - Yield 2.6%

At 21 times this year's earnings, with internal improvements less than anticipated and an outlook for at-best only moderate earnings progress in 1969, we consider these speculative shares fully priced.

Internal improvements have been less than anticipated, and as a result we are lowering our earnings estimate to $1.80 per share. The imposition of the surtax, coupled with federal spending cuts, should have an adverse impact on Westinghouse Air Brake's (WABCO) business, while a slowdown in housing starts during the second half of 1968 could depress the sales of building products during the early part of 1969. Speculative potential remains large, as there exists considerable room for internal improvement, while the company should also be a prime beneficiary of higher levels of housing starts in the years ahead. However, at 21 times current earnings and with little chance for large gains in 1969, these speculative shares appear fully priced for the time being.

Domestically, results are below our expectations. Earlier, we had anticipated breakeven operations at the company's central engineered air conditioning operations. However, it now appears that continued deficits will be incurred, although at rates considerably below the estimated $2-$2 1/2 million pretax of last year. American Standard plans to remain active in this field but is shifting its emphasis away from large chillers, where they are unable to compete effectively, to the peripheral equipment used in large central engineered air conditioning projects. The company's industrial and technical products division should remain marginally profitable this year as it was last. Better results have been achieved in most product areas, but this is being offset by earnings declines at the Controls division.

Sales at Mosler Safe are estimated at $81 million, or up slightly more than 10%. Earnings for the year should move up somewhat more rapidly and rise between 10% and 15%. However, the favorable impact of this will be blunted by considerably higher interest costs, as a result of refinancing the short-term debt incurred when Mosler was purchased.

Plumbing fixtures and fittings, along with Mosler, still remain the principal source of domestic earnings. Sales of plumbing products should advance by approximately 15% to $205 million. Including heating and air conditioning products, total domestic building volume should approximate $305 million. Finally, industrial sales are estimated at $75 million. The Lyons Company, which American Standard recently purchased, is a large tract builder. Its sales are estimated at approximately $40 million, but only earnings will be consolidated. Total domestic volume is therefore estimated at approximately $460 million, with earnings $10-$10.5 million after a surtax.

Overseas, we anticipate further improvement in earnings. Last year, profits from operations overseas amounted to $6.4 million, and this year, we anticipate a further advance to approximately $7.0-7.5 million in spite of difficulties in France. Sales should approximate $210-215 million. As a result of the general strike and the large wage increases that followed, results there should be disappointing. As indicated, this should be more than offset by gains in other countries. Thus, excluding WABCO, American Standard should have earnings of $17.0-18.0 million, or roughly $1.60-1.70 a share.

We estimate that sales at WABCO should be little changed from the $305 million of 1967. Earnings after the surtax should be equal to or somewhat above the 1967 levels. The improvement is coming largely from better results overseas, higher profits at Melpar, and a cutback of employment to levels more commensurate with sales. The impact of the surtax on the capital goods sector of the economy, coupled with the effect of the government spending cuts, should have an adverse impact on WABCO's results in the latter half of 1968 as well as in 1969. Thus we doubt that WABCO can make an improved contribution to earnings in 1969. Based on the above estimates, the inclusion of WABCO should add approximately 15-20¢ a share to Standard's earnings, bringing our full-year earnings estimate to approximately $1.75-1.90 per share compared with $1.32 on a pro forma basis.

American Standard reported earnings of 25¢ a share during the first quarter. For the second quarter, excluding WABCO, we estimate earnings at 30-35¢ a share, bringing first half earnings to 55-60¢ a share. The inclusion of WABCO, which will be pooled during the second quarter, should add roughly 10¢ a share to these first half estimates.

As a result of revising downward our 1968 earnings estimate, we now question the attainability of our long-term 1970 projections. The business environment during the early part of 1969 does not appear particularly favorable towards the industries that American Standard serves—homebuilding and capital goods. Although we are confident that housing starts would recover during the latter part of 1969 and move sharply higher during the years ahead, the current slowdown tends to place further in the future the large earnings gains we saw, as we will be working off a lower base. Furthermore, to the extent that these gains depended upon internal improvements, it may also be necessary to downgrade our estimates, as recent experience indicates that although progress is being made, it is somewhat slower than we had earlier anticipated.

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